

Message Text

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PAGE 01 CAIRO 00156 071340Z

43

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E.O. 11652: N/A

TAGS: EFIN, EG

SUBJECT: CENTRAL BANK OFFICIAL ON EXCHANGE RATES

1. SUMMARY: SENIOR CENTRAL BANK OFFICIAL IS OF OPINION GOE IS YEARS AWAY FROM RATIONALIZATION OF PRESENT MULTIPLE FOREIGN EXCHANGE STRUCTURE. NUMBER OF FACTORS INHIBIT CHANGE DESPITE ADVERSE EFFECT ON INVESTMENT PROSPECTS. END SUMMARY

2. DURING COURSE OF CONVERSATION WITH EMBOFF JANUARY 6, CENTRAL BANK DEPUTY GOVERNOR DR. ABDEL MONIEM EL BANNA COMMENTED AT LENGTH ON EXCHANGE RATE QUESTION AND ITS EFFECT ON ECONOMY. GIST OF EL BANNA'S REMARKS WAS THAT IT WILL BE MATTER OF YEARS BEFORE GOE SETTLES ON UNITARY EXCHANGE RATE TO REPLACE PRESENT SYSTEM. HE CITED AS REASON UNSETTLED WORLD MONETARY CONDITIONS, WEAKNESS OF EGYPTIAN POUND, FACT IT IS NOT MAJOR TRADING CURRENCY AND LIKELY DISRUPTIVE EFFECT ON ECONOMY OF PRECIPITATE CHANGE. EL BANNA INFORMALLY CHARACTERIZED EXCHANGE STRUCTURE NOW IN EFFECT AS DUAL OFFICIAL RATE PLUS FREE BLACK MARKET. HE BASICALLY DISAPPROVES OF INCENTIVE PARALLEL RATE IN ADDITION TO STATED OFFICIAL RATE - AND REGUSES OFFICIAL COGNIZANCE TO BLACK MARKET - BUT REMARKED THAT COVERAGE OF EXTERNAL TRADE UNDER PARALLEL MARKET MAY BE EXPANDED TO INCLUDE RANGE OF ADDITIONAL IMPORTS, PARTICULARLY THOSE ITEMS WITH LEAST PRICEELASTICITY OF DEMAND. EL BANNA'S DISAPPROVAL OF PARALLEL

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RATE APPARENTLY IS BASED ON LACK OF ENTHUSIASM FOR MULTIPLE

OFFICIALLY-SANCTIONED RATES AND COMPLICATIONS ARISING THEREFROM, ALTHOUGH HE PRIVATELY COMMENTED EGYPTIAN POUND IS WIDELY RECOGNIZED WITHIN GOVERNMENT TO BE OVERVALUED AT PRESENT FIXED, NON-INCENTIVE QUOTATION.

3. CENTRAL BANK OFFICIAL ACKNOWLEDGED AFTER SOME DISCUSSION THAT EFFECT OF MULTIPLE EXCHANGE RATE ON POTENTIAL FOREIGN INVESTORS MANIFESTS ITSELF PRIMARILY IN WHAT IS PERCEIVED AS UNCERTAINTIES REGARDING PROFIT REMITTANCES AND CAPITAL REPATRIATION. INVESTMENT LAW 43 WAS DESIGNED TO PROVIDE APPROPRIATE EXCHANGE ACCOMMODATION BUT CONFUSION ARISES FROM EXISTENCE OF TANDEM RATES AND BREVITY OF LANGUAGE IN LAW SPECIFICALLY ADDRESSING ITSELF TO INVESTORS' ACCESS TO CONVERTIBLE CURRENCIES. DESPITE THIS ADVERSE EFFECT ON OPEN DOOR POLICY AND INVESTMENT PROSPECTS, ACCORDING TO EL BANNA GOE WILL BE REQUIRED BY FINANCIAL DANGERS INHERENT IN CHANGE OF SYSTEM TO ADOPT POSITION OF MOVING ONLY VERY SLOWLY AND GRADUALLY TO ANYTHING APPROACHING FLOAT OF EGYPTIAN POUND.

4. COMMENT: CENTRAL BANK DEPUTY GOVERNOR'S PARTICIPATION IN SUB-MINISTERIAL DELIVERATIONS ON THIS AND RELATED ECONOMIC POLICY QUESTIONS GIVES HIM GOOD INSIGHT INTO CURRENT GOE THINKING. IN CONVERSATION HE INDICATED THAT, WHILE HE PERSONALLY TENDS TO ESPOUSE SOMEWHAT LIBERAL FINANCIAL MEASURES, MOST OF HIS COLLEAGUES ARE DECIDEDLY CONSERVATIVE IN OUTLOOK. WHETHER OR NOT THIS IS CASE, EL BANNA CLEARLY BELIEVES GOE WILL NOT MOVE ANYTIME SOON TO SIMPLIFY AND RATIONALIZE FOREIGN EXCHANGE SYSTEM.
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